

**Review of the Indirect and Other Direct Cost's
Internal Control System**

February 2003

Reference Number: 2003-1C-051

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



INSPECTOR GENERAL
for TAX
ADMINISTRATION

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

February 25, 2003

MEMORANDUM FOR DAVID A. GRANT
DIRECTOR OF PROCUREMENT
INTERNAL REVENUE SERVICE

A handwritten signature in cursive script that reads "Daniel R. Devlin".

FROM: Daniel R. Devlin
Assistant Inspector General for Audit (Headquarters Operations
and Exempt Organizations Programs)

SUBJECT: Review of the Indirect and Other Direct Cost's Internal Control
System (Audit #200310002.019)

The Defense Contract Audit Agency (DCAA) audited the contractor's Civil Group's indirect and other direct cost (ODC) system. The objective of the audit was to evaluate the adequacy of the system's internal controls for the purpose of accumulating, allocating, and reporting other direct and indirect costs.

The DCAA opined that the indirect and ODC system and related internal control policies and procedures of the contractor's Civil Group are inadequate. The DCAA stated that the contractor's Civil Group lacks adequate written indirect and ODC system policies and procedures that address the following control objectives: contractor compliance reviews, training, preparation of indirect and other direct cost submissions, and allocation of indirect and other direct costs. The DCAA considers the lack of formal written policies and procedures to be a significant deficiency in the design and operation of the internal control structure.

Additionally, the DCAA indicated that the failure of the contractor's Civil Group to implement adequate indirect and ODC controls could result in ineffective control over the accumulation, allocation, and recording of costs incurred in the performance of Government contracts. This may result in increased costs on Government contracts. The DCAA recommends that the contractor's Civil Group develop adequate written policies and procedures for the aforementioned control objectives, including policies and procedures related to the Centralized Accounts Payable function, which comprises a major portion of the contractor's Civil Group's indirect and ODC system.

This DCAA report was issued in September 2000; however, the Treasury Inspector General for Tax Administration (TIGTA) did not receive the report until February 2003. The Internal Revenue Service (IRS) previously received a copy of the report directly from the DCAA. We are transmitting the report to you to enable the IRS to track any financial accomplishments derived from negotiations with the contractor based on the results of this DCAA report.

The information in this report should not be used for purposes other than that intended without prior consultation with the TIGTA regarding its applicability.

If you have any questions, please contact me at (202) 622-8500 or John R. Wright, Director at (202) 927-7077.

Attachment

NOTICE:

The Office of Inspector General for Tax Administration has no objection to the release of this report, at the discretion of the contracting officer, to duly authorized representatives of the contractor.

The contractor information contained in this report is proprietary information. The restrictions of 18 USC 1905 must be followed in releasing any information to the public.

This report may not be released without the approval of this office, except to an agency requesting the report for use in negotiating or administering a contract with the contractor.

The TIGTA seal was removed due to its size.